COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN EXAMINATION BY THE PUBLIC SERVICE COMMISSION OF THE APPLICATION OF THE FUEL ADJUSTMENT CLAUSE OF KENTUCKY UTILITIES COMPANY PURSUANT TO 807 KAR 5:056E, SECTIONS 1(11) AND (12)	)	CASE NO. 8057

O R D E R

Pursuant to 807 KAR 5:056E, Sections 1(11) and (12), and following proper notice, a hearing was held on January 27, 1981, to review the operation of the standard fuel adjustment clause; to determine the amount of fuel cost that should be transferred (rolled-in) to the base rates of the Applicant; and to re-establish the fuel adjustment clause charge.

In response to the Commission's request for information, the Applicant filed data showing by month, for the period November 1978 through November 1980, the price paid for coal, freight costs, unit availability, unit performance, and the cost per kwh of net generation. In response to the request the Applicant stated its intent to use November 1980 as the test month or base period for purposes of arriving at the base fuel costs (F(b)) and kwh sales (S(b)) the components of the standard fuel adjustment clause. The base fuel cost requested using data for the month of November 1980 was 15.33 mills per kwh.

In establishing the level of base fuel cost to be included in the Applicant's rates, the Commission must determine whether the base period fuel cost per net kwh generated is normal or representative of the level of fuel cost actually being experienced by the Applicant. The Commission's review of data filed by the Applicant discloses that the cost of net generation for July, August, September, and October of 1980 was 14.84, 14.60, 14.53 and 17.01 mills per kwh, respectively. Further, the Commission's analysis of the Applicant's fuel clause filings discloses that actual fuel cost for the six months ending December 1980 ranged from a low of 14.04 mills per kwh in July of 1980 to a high of 17.02 mills in October 1980. The Commission concludes that the base fuel cost requested is representative of the actual level of fuel currently being incurred by the Applicant.

The Commission is concerned about the level of fuel cost currently being incurred by the Applicant. Our review shows that the Applicant's cost of net generation per kwh is higher than the net cost of generation reported by any other utility. Our analysis indicates the higher fuel costs are due primarily to the cost of net generation from the Ghent II Unit. The data filed by the Company shows that the mine cost per ton at Ghent I was 93¢ per MMBTU for the 12 months ended October 1980 and for the month of October 1980 the cost was 94.2¢ per MMBTU. For these same periods the mine cost per ton for Ghent II was 180.1¢ and 186.1¢ per ton, respectively. The end result is that the cost of fuel per net kwh generated for November 1980 at Ghent II was 2.084¢ per kwh as compared to the cost at Ghent II of .983¢ per kwh. The Commission recognizes that Ghent II does not have scrubbers and, therefore, must burn low sulphur "compliance" coal. However, the Commission concludes the cost differential in the fuel cost of the two units is significant enough to require further inquiry.

One other issue requires discussion at this point. In its Order in Case No. 8058 the Commission discussed in detail Kentucky Power's position that the transfer (roll-in) of fuel cost to the base rates will result in Kentucky Power not being able to bill all of the increase in fuel cost for the two months immediately preceding the first month the new base fuel cost is billed. The Commission concluded, among other things, that there was some merit to Kentucky Power's position and provided in that Order what it believes is a reasonable solution to the problem.

In this instance the Applicant bills customers on a cycle basis daily. The Applicant is proposing to change the level of base fuel cost from 12.29 to 15.33 mills. Thus, the Applicant is faced with the same problem raised by Kentucky Power in Case No. 8058 and discussed in detail in the Commission's Order issued in that case. The Commission will by way of example briefly analyze the problem of under recovery due to roll-in of base fuel cost.

For this example, three assumptions are made. First, it is assumed that the Commission approves a base fuel cost of 15.33 mills effective for bills rendered on and after April 1, 1981. Second, it is assumed that the former base fuel cost prior to roll-in was 12.29. And third, it is assumed that the actual fuel cost for February and March of 1981 is 14.29 and 15.29 mills, respectively. Since one-half of February sales would be billed in February and the other one-half in March, the base fuel cost of 12.29 would apply to both. Thus, for February usage the applicable fuel adjustment clause rate would be 2.00 mills (14.29 less 12.29) and would be recovered from customers beginning with the first cycle billed in April of 1981.

Recovery of the March fuel cost is not as easily computed since one-half of the sales billed in March would be subject to the base fuel cost of 12.29 and the other one-half billed in April would be subject to the new base fuel cost of 15.33. While a precise calculation cannot be made, it is the view of the Commission that a reasonable solution to this problem is to average the sum of the base fuel cost prior to roll-in of 12.29 mills and of the base fuel cost after the roll-in of 15.33 mills, which results in a figure of 13.81 mills. Thus, the fuel adjustment clause rate applicable to March usage would be 1.48 mills (15.29 less 13.81) and would be recovered from customers beginning with the first cycle billing in May of 1981. The Commission believes that the use of this procedure will eliminate any material impact on the company or its customers due to roll-in of the fuel cost to the base rates.

The Commission, after review of the evidence of record and being advised, FINDS:

(1) That the Applicant has complied in all material respects with the provisions of 807 KAR 5:056E, Uniform Fuel Adjustment Clause.

(2) That the test month of November should be used as the base period in this proceeding.

(3) That the Applicant's request for establishment of a base fuel cost of 15.33 mills should be granted.

(4) That the establishment of base fuel cost of 15.33 mills requires a transfer of .304¢ per kwh from the fuel adjustment clause rate to the Applicant's base rates which can best be accomplished by an energy adder to each kwh sold.

(5) That transfer of fuel cost to the Applicant's base rates will not result in any additional net income to the Applicant.

(6) That the Applicant should be required to file revised rates and charges designed only to reflect the transfer (roll-in) to base rates of the differential between the old base fuel cost of 12.29 mills and the new base fuel cost of 15.33 mills.

(7) That the revised rates should be approved for bills rendered on and after April 1, 1981.

(8) That the fuel adjustment clause rate for February usage to be billed in April should be calculated using the base fuel cost, prior to the roll-in of 12.29.

(9) That the fuel adjustment clause rate for March usage to be billed in May should be computed using a base fuel cost of 13.81 mills per kwh which is the average of the 12.29 mills base fuel cost prior to roll-in and the 15.33 mills base fuel cost after roll-in.

(10) That the information contained in Appendix "A" of this Order should be provided on or before June 1, 1981.

IT IS THEREFORE ORDERED that the Applicant's request to establish a base fuel cost of 15.33 mills per kwh be and it is hereby approved, effective for bills rendered on and after April 1, 1981.

IT IS FURTHER ORDERED that the base fuel cost to be used for the purpose of computing the fuel adjustment clause rate for February fuel cost is 12.29 mills, which is the base fuel cost before roll-in.

IT IS FURTHER ORDERED that the base fuel cost to be used for purposes of computing any increase or decrease in fuel cost for March is 13.81 mills and for succeeding months is 15.33 mills.

IT IS FURTHER ORDERED that the Applicant shall file within twenty (20) days of the date of this Order its revised tariff sheets setting out the revised rates required to effect the transfer of .304¢ per kwh from the current fuel adjustment clause rate to the base rates of the Applicant.

IT IS FURTHER ORDERED that the Company provide on or before June 1, 1981, the information contained in Appendix "A" to this Order.

Done at Frankfort, Kentucky, this 13th day of March, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Volz
Chairman

Katherine Randall
Vice Chairman

Dean Hanagan
Commissioner

ATTEST:

Secretary

APPENDIX "A"

1. Provide all cost studies or analyses which were performed by KU's staff or its consultants prior to or during construction, for use in evaluating the alternative cost of generation from Ghent II:

   a. With scrubbers.

   b. Without scrubbers.

2. Provide an analysis of the alternative cost of generation assuming KU added scrubbers to Ghent II and burned high sulfur "non-compliance" coal. In this analysis show separately the following data:

   a. Additional capital and related costs to add scrubbers.

   b. Fuel cost and net generation per kwh based on burning non-compliance coal.

3. Provide a detailed summary of all efforts made by KU to mitigate price increases under each contract with suppliers for compliance coal for Ghent II. This includes but is not limited to:

   a. Audits performed by KU's staff or independent accounting firms hired by KU.

   b. Any studies, analyses, or reviews of the operations and management of these coal suppliers performed by KU's staff or consultants hired by KU.

   c. Internal staff memos which summarize the results of reviews made by KU's staff of price increases requested by these suppliers under the terms of these contracts.

4. Provide a detailed explanation of the factors considered in selecting each of the coal suppliers for Ghent II and a detailed explanation of market conditions at the time each of these contracts was negotiated and signed.